

## Message Text

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PAGE 01 SEOUL 06217 260253Z

ACTION EA-09

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 /064 W

-----074789 260359Z /13

R 260201Z JUL 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 5321

INFO AMCONSUL DHAHRAN

AMEMBASSY JIDDA

LIMITED OFFICIAL USE SEOUL 6217

E.O. 11652: N/A

TAGS: KS XF OPEC ECRE EFIN

SUBJ: THIRD PARTY BANK GUARANTEES FOR KOREAN CONSTRUCTION IN SAUDI  
ARABIA

REF: SEOUL A-76, MAY 9, 1977

1. EMBASSY HAS CONFIRMED WEEKEND PRESS REPORTS THAT IN A LETTER TO THE FINANCE MINISTER AND PRESIDENT OF THE KOREA EXCHANGE BANK (KEB), THE PRESIDENT OF THE SAUDI ARABIAN CENTRAL BANK AGREED TO ACCEPT KEB GUARANTEES FOR INDIVIDUAL CONSTRUCTION CONTRACTS UP TO TWO HUNDRED MILLION DOLLARS WITHOUT REQUIRING THIRD COUNTRY STANDBY GUARANTEES. THE OVERALL SAVING TO KOREAN CONSTRUCTION COMPANIES IN SAUDI ARABIA IS REPORTED TO BE APPROXIMATELY 2.25 PERCENT OF THEIR FINANCING COSTS.

2. ACCORDING TO U.S. BANKING SOURCE, LETTER WAS APPARENTLY PRESENTED TO ROK EMBASSY IN JIDDA AND HAS NOT REACHED SEOUL AS YET. CITIBANK HAS THUS FAR BEEN UNABLE TO CONFIRM LETTER'S CONTENTS EITHER HERE OR IN JIDDA, ALTHOUGH REPRESENTATIVE HAS NO DOUBT THAT REPORTS ARE FACTUAL. U.S. BANKS OF COURSE WOULD  
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REGRET THE LOSS OF EARNING OPPORTUNITIES FROM PROVIDING GUARANTEE SERVICES. THE S.A.G. MAINTAINS A LIST OF THE 55 TOP RANKING INTERNATIONAL BANKS (EXCLUDING THE JAPANESE BANKS) WHOSE IRREVOCABLE LETTERS OF CREDIT REQUIRE NO GUARANTEES. KEB COULD NOT CREDIBLY BE LISTED WITH SUCH BANKS, AND SOURCE SEES SAUDI ACTION AS A COMPROMISE IN ORDER TO RECOGNIZE RELIABILITY OF KOREAN CONSTRUCTION PERFORMANCE.

3. EMBASSY COMMENT: SAUDI ACTION MOVES TOWARD EQUALIZING FINANCIAL COSTS TO KOREAN CONSTRUCTION FIRMS VIS A VIS THOSE OF U.S. AND WESTERN EUROPE; HOWEVER, IT HAS AT BEST ONLY A MARGINAL EFFECT ON THEIR COMPETITIVENESS IN BIDDING WHICH RESTS ON OTHER FACTORS SUCH AS TIMELY HIGH QUALITY PERFORMANCE AT LOWER OVERALL COST.

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## Message Attributes

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**Channel Indicators:** n/a  
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**Disposition Approved on Date:**  
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**Disposition Date:** 22 May 2009  
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**Retention:** 0  
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**To:** STATE  
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**Review Markings:**  
Margaret P. Grafeld  
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